RESPONSE

to the

1987 REPORT

of the

AUDITOR GENERAL

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Statement by the Honourable Mel Couvelier
on the 1987 Report of the Auditor General

I take pleasure in presenting the government's response to the *1987 Report of the Auditor General*. It is encouraging to note that, for the first time, no new recommendations regarding financial statement presentation have been made by the Auditor General. The actions being taken to address areas of concern contained in the Report are described in this publication.

An excellent working relationship exists between the Office of the Auditor General and the staff of my Ministry. This high level of professionalism has been, and continues to be instrumental in our efforts to become the leader in government financial management and reporting. Progress to date has been considerable. However, this does not give cause for the relaxation of our efforts to acheive the goal of excellence in financial management and control.

The following Response to the *1987 Report of the Auditor General* outlines the government's progress in reacting to problems identified in the Auditor General's most recent annual report to the Legislative Assembly. Cross-references to the *1987 Report of the Auditor General* are made in the right hand margin of this volume.

Mel Couvelier
Minister of Finance and Corporate Relations

Section Subsection		Auditor General's Reference (1987 Report)
A.	**ANNUAL FINANCIAL STATEMENTS**	
A.1	**Specific Financial Statement Matters 1985/86**	P.21 2.21 - 2.24
	No new items relating to the government's financial statements for 1985/86 have been reported by the Auditor General. The improvements which continue to be made in financial statement presentation reflect the changing needs for financial information by the numerous users.	
A.2	**Status of Financial Statement Matters in Previous Reports**	
A.2.1	**Trust Funds Financial Statements**	P.23 1.30 (1986)
	The government's position is that the public debt sinking funds reported in the Trust Funds Financial Statements are not being held on behalf of the Province but on behalf of the lenders of the funds. There is clear authority for the establishment and funding of sinking funds but these funds are not considered to be subject to re-appropriation into the government's consolidated revenue fund and there is no provision for collapsing the funds by any means other than by payment to debt holders.	
	Therefore, the government's opinion continues to be that disclosure in the Trust Funds financial statements is appropriate. However, the government's legal position in regard to its possible power of reappropriation of the funds is being investigated further and appropriate changes will be made if the currently held opinion is reversed.	
A.2.2	**Trust Funds Accounting**	P.23 1.36 (1986)
	The government's position continues to be that these Funds are managed primarily to ensure safe custody and the present classification of these funds is appropriate.	
A.2.3	**Cash Receipts**	P.24 3.15 2.10 (1985) (1986)
	A review of the government's policy for cash receipts is being undertaken with revision expected in the near future. The *1988/89 Estimates* will reflect the new policy. Progress on Recoveries policy is addressed in B.3.6.	

B. SYSTEMS OF FINANCIAL AND ADMINISTRATIVE CONTROL, AND COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES

Section Subsection	Auditor General's Reference (1987 Report)

B. SYSTEMS OF FINANCIAL AND ADMINISTRATIVE CONTROL, AND COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES

B.1 Specific Control and Compliance Matters

B.1.1 Accuracy of Corporate Water Usage Fees

P. 29
2.28 - 2.30

Over the past several years, the Ministry of Environment and Parks has examined several different methods for verifying major power licensee capacity and actual power output. One option considered was the actual reading of company meters by Ministry staff. This was rejected as being expensive and not entirely reliable.

The most economic and effective solution is to have company auditors provide an audit certificate confirming capacity and actual power output.

The Water Management Branch of the Ministry is implementing this certificate of verification with the ten major power companies which have annual rentals in excess of $10,000.

B.1.2 Transfer of Expenditures

P.29
2.31 - 2.34

The government is of the opinion that the expenditure was properly approved in accordance with the *Financial Administration Act*.

The description of Vote 21 in the *1985/86 Estimates* states that the independent schools vote is for "partial support of British Columbia independent schools..." The government's opinion, based on the vote description, is that provision for support in any form, including the provision of textbooks, is permitted. Therefore, the disbursement was an appropriate charge to Vote 21.

B.1.3 Overpayments of Sewerage Assistance and Water Facility Grants

P.30
2.35 - 2.39

Control procedures within the Ministry of Municipal Affairs for payments from the Revenue Sharing Fund are generally very effective considering that over $200 million is paid from the Fund annually. The specific payments identified by the Auditor General have been recovered by the Ministry. Control procedures have been implemented to provide better overall control. The control process will be formalized as part of the Policy and Procedures Manual of the Ministry of Municipal Affairs to be issued in 1987/88.

B. SYSTEMS OF FINANCIAL AND ADMINISTRATIVE CONTROL, AND COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES

Section Subsection	Auditor General's Reference (1987 Report)

B.1.4 Differences with Municipalities Over Tax Balances

P.31
2.40 - 2.44

The Ministry of Finance and Corporate Relations recognizes the complexities of this issue. In order to effectively deal with this facet of real property taxation, responsibility for non-residential school taxes (NRST) has been transferred to the Surveyor of Taxes, Real Property Taxation Branch, Revenue Division of the Ministry of Finance and Corporate Relations.

Direct contact has since been established with the financial officers of those municipalities with the largest unreconciled balances to facilitate the reconciliation process.

An administrative policy manual for municipalities is being prepared and is expected to be completed by mid summer, 1987. It will provide a policy and procedure base which will be applied consistently to all municipalities.

B.1.5 Authority for Sinking Funds

P.31
2.45 - 2.49

This issue was raised in the Auditor General's 1986 Report. As stated in the 1986 Response, the Ministry of Finance and Corporate Relations has satisfied itself, by an opinion from legal counsel, that current practice for the establishment of sinking funds is consistent with the *Financial Administration Act*. Given the ongoing concern of the Auditor General, however, the matter will be re-evaluated.

B.2 Review of Local Minor Purchase Orders and Emergency Purchase Orders

P.33
2.50 - 2.73

The review of Local Minor Purchase Orders and Emergency Purchase Orders was undertaken to determine whether internal controls established by the ministries are adequate, and whether applicable policies and directives issued by the Purchasing Commission, Treasury Board and each ministry have been complied with.

The issues raised by the Auditor General have been conveyed directly to the ministries concerned and are being dealt with by them on an individual basis with the Office of the Auditor General.

The Auditor General has found that internal controls are generally adequate but noted that some controls designed to prevent inappropriate or unauthorized use are weak in certain ministries.

The specific recurring concerns raised by the Auditor General are being addressed by the relevant ministries and steps are being taken to strengthen purchasing procedures.

B. SYSTEMS OF FINANCIAL AND ADMINISTRATIVE CONTROL, AND COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES

Section / Subsection		Auditor General's Reference (1987 Report)
B.3	**Status of Financial and Administrative Control, and Compliance Findings in Previous Reports**	
B.3.1	**Public Trustee Control Weaknesses - Ministry of Attorney General**	P.38 3.64 (1986)
	All observations and recommendations have been addressed and have either been completed or are in the process of completion. Implementation of controls to address the remaining outstanding issues should be completed in 1987/88.	
B.3.2	**Reallocation of Funds - Ministry of Finance and Corporate Relations**	P.38 4.10 (1985)
	Procedures for monitoring reallocation of budgeted funds on a government-wide basis are being developed.	
B.3.3	**Segregation of Trust Monies**	P.39 3.54 4.17 (1986) (1985)
	The government continues to maintain the same opinion as expressed in the 1986 Response.	
	The *Financial Administration Act* states in Section 10 that trust funds "shall be paid into and maintained in accounts kept in the Ministry separate from the Consolidated Revenue Fund". The Ministry of Finance and Corporate Relations has and will continue to keep trust funds recorded in accounts separate from the Consolidated Revenue Fund. It is, therefore, considered that the *Financial Administration Act* is being complied with and that the beneficiaries of the trusts suffer no greater risk of loss through this treatment.	
B.3.4	**Sinking Fund Policy**	P.39 1.27 (1986)
	This concern has been raised again in the 1987 Report, paragraphs 2.45 to 2.49. See response under B.1.5, Authority for Sinking Funds.	
	In view of the ongoing concern of the Auditor General, the matter will be re-evaluated.	
B.3.5	**Special Funds and Accounts**	P.39 3.9 (1986)
	As was indicated in last year's Response to the Auditor General, five per cent of expenditures consist of Special Funds and Accounts. These expenditures are multi-year appropriations which do not lapse at the end of a fiscal year. The total amount that can be spent out of a Fund or Account, however, is determined by the Legislature with specific legislation. As a result, the Legislature has full opportunity to debate or limit these expenditures when the specific legislation is introduced or to subsequently place further limits and reviews on these expenditures through government or private members' bills amending the relevant legislation. In addition, government's intention for annual spending on these statutory appropriations is reported in the annual Estimates.	

B. SYSTEMS OF FINANCIAL AND ADMINISTRATIVE CONTROL, AND COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES

Section Subsection		Auditor General's Reference (1987 Report)
B.3.6	**Recoveries Policy** A comprehensive draft policy statement for "Recoveries" is presently under review. If approved by Treasury Board, implementation is planned for the 1988/89 fiscal year.	**P.39 3.16 (1986)**
B.3.7	**Borrowing Orders in Council** As stated in the 1986 Response, legal counsel has advised that current practice with respect to borrowing authorizations is acceptable. Nonetheless, considering the Auditor General's concern over this matter, legislation is planned which will clarify that securities may be issued at, above or below par. Future Orders in Council will be redesigned to clarify whether they refer to the face value or the proceeds of an issue.	**P.40 3.25 (1986)**
B.3.8	**Contingencies Vote Description** The *Estimates* for 1987/88 contain an amended description of the Contingencies Vote.	**P.40 3.33 (1986)**
B.3.9	**Senior Financial Officer Bank Accounts** Subsequent to printing of the Auditor General's 1987 Report, government policy was amended to reclassify these accounts as "Cash" instead of "Accounts Receivable."	**P.40 3.38 (1986)**
B.3.10	**Accounts Receivable Collections - Ministry of Forests and Lands** The Ministry of Forests and Lands will continue with its vigorous collection efforts for accounts receivable. The Ministry's policies of credit management and account collection are being critically reviewed for clarification and streamlining.	**P.41 3.78 (1986)**
B.3.11	**Restructure Grants - Ministry of Municipal Affairs** It is intended that the cost sharing arrangements will be reviewed for 1988/89.	**P.42 3.87 (1986)**
B.3.12	**Leave Management System - Ministry of Provincial Secretary & Government Services** Test implementation of the new system began in the Ministries of Health, Finance and Corporate Relations, and Provincial Secretary and Government Services during March 1987. The test implementation will require evaluation by the Government Personnel Services Division and the Office of the Comptroller General prior to government-wide implementation. Responsibility for the Government Personnel Services Division and the Corporate Leave Management System now resides with the Ministry of Intergovernmental Relations due to recent reorganization.	**P.42 3.16 (1982)**

B. SYSTEMS OF FINANCIAL AND ADMINISTRATIVE CONTROL, AND COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES

Section Subsection	Auditor General's Reference (1987 Report)
B.3.13 Telephone Leases	P.42 3.93 (1986)
Senior management of the Ministry of Provincial Secretary and Government Services is continuing to monitor new lease arrangements.	
B.3.14 Income Assistance Payments - Ministry of Social Services and Housing	P.43 3.33 (1983)
The Ministry of Social Services and Housing continues its efforts to improve file documentation and to ensure the correct application of program policy through the use of training, auditing and monitoring. As changes occur in legislation, policy and systems, or through the hiring of new staff, the Ministry makes strong and definitive efforts to inform and train district managers and other key field staff in the administrative and service delivery requirements.	
B.3.15 Civil Legal Aid Program	P.43 3.73 (1986)
The residual amounts outstanding for the fiscal years 1981, 1982 and 1983 were paid by the Federal Government in May, 1987.	

C. ECONOMY AND EFFICIENCY IN THE ADMINISTRATION OF PUBLIC FUNDS AND PUBLIC ACCOUNTABILITY

Section Subsection	Auditor General's Reference (1987 Report)
C. ECONOMY AND EFFICIENCY IN THE ADMINISTRATION OF PUBLIC FUNDS AND PUBLIC ACCOUNTABILITY	P.49 - 115

Responses by both the Purchasing Commission and the Ministry of Attorney General to the Auditor General's comprehensive audits are contained in the Auditor General's Report.

Both responses remain substantially unaltered at the time of publication of this Official Response. The Purchasing Commission is developing a plan of action to address each of the Auditor General's specific recommendations. Each of these recommendations is considered to be of an incremental nature but will be analyzed carefully, nevertheless, with action to be taken where appropriate.

D. COMMENTS ON ANNUAL REPORTS OF MINISTRIES

Section Subsection	Auditor General's Reference (1987 Report)

D. COMMENTS ON ANNUAL REPORTS OF MINISTRIES

D.1 Ministry of Finance and Corporate Relations

P.117
2.412

The Ministry will be converting to a fiscal year Annual Report as recommended.

D.2 Ministry of Energy, Mines and Petroleum Resources

P.117
2.413

The Ministry prefers to maintain a calendar year cycle for its Annual Report. This timing not only facilitates production of the Ministry's Annual Report within six months following the end of the year but also permits inclusion of calendar year industry information, thereby allowing elected representatives and other readers to compare revenue and program expenditures with industry trends in a meaningful way.

The Ministry believes that this method of reporting enhances the information value of its Annual Report, albeit on a calendar year basis, and eliminates the necessity to design a suitable vehicle for producing and disseminating technical information separately.

D.3 Ministry of Education

P.118
2.414

At the present time the Ministry reports to the Legislature on the operations of the school districts which have an operating year from July 1 to June 30. It is apparent, therefore, that the legitimate time frame of accountability to the Legislature should be the school districts' operating year rather than the government's fiscal year.

D.4 Ministry of Health

P.118
2.415

The Ministry's Annual Report is currently in transition from a calendar year cycle to a fiscal year cycle. While the Ministry remains concerned about the research value of its Annual Report, the Ministry will endeavour to publish its Annual Report within six months following the fiscal year end.

D.5 Ministry of Transportation and Highways

P.118
2.415

The Ministry acknowledges that its Annual Report should be simplified and provide less detailed summary information. It is the Ministry's intention to prepare the next Annual Report accordingly.

Section Subsection	Auditor General's Reference (1987 Report)

E. AUDITS OF PUBLIC BODIES

E.1 Public Body Accountability Information

P.123
3.11 - 3.17

Subsequent to publication of the Auditor General's 1987 Report, the *Financial Information Act* came into force May 8, 1987 thus ensuring the availability of public body financial information to legislators.

F. PROGRESS INDEX

ISSUE	Auditor General's 1987 Report Reference PAGE(S)	PARAGRAPH(S)	STATUS
A. ANNUAL FINANCIAL STATEMENTS			
A.1 Specific Financial Statement Matters 1985/86	21	2.21 - 2.24	No Action Required
A.2 Status of Financial Statement Matters in Previous Reports			
A.2.1 Trust Funds Financial Statements	23	1.30	See Comments
A.2.2 Trust Funds Accounting	23	1.36	See Comments
A.2.3 Cash Receipts	24	2.10, 3.15	Action Being Taken
B. SYSTEMS OF FINANCIAL AND ADMINISTRATIVE CONTROL, AND COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES			
B.1 Specific Control and Compliance Matters			
B.1.1 Accuracy of Corporate Water Usage Fees	29	2.28 - 2.30	Action Being Taken
B.1.2 Transfer of Expenditures	29	2.31 - 2.34	Disputed
B.1.3 Overpayments of Sewerage Assistance and Water Facility Grants	30	2.35 - 2.39	Action Being Taken
B.1.4 Differences with Municipalities over Tax Balances	31	2.40 - 2.44	Action Being Taken
B.1.5 Authority for Sinking Funds	31	2.45 - 2.49	Under Consideration
B.2 Review of Local Minor Purchase Orders and Emergency Purchase Orders	33	2.54 - 2.56	Action Being Taken
B.3 Status of Financial and Administrative Control, and Compliance Findings in Previous Reports			
B.3.1 Public Trustee Control Weaknesses	38	3.64	Action Being Taken
B.3.2 Reallocation of Funds	38	4.10	Action Being Taken
B.3.3 Segregation of Trust Monies	39	3.54, 4.17	Disputed
B.3.4 Sinking Fund Policy	39	1.27	Under Consideration
B.3.5 Special Funds and Accounts	39	3.9	See Comments
B.3.6 Recoveries Policy	39	3.16	Action Being Taken
B.3.7 Borrowing Orders in Council	40	3.25	Action Being Taken
B.3.8 Contingencies Vote Description	40	3.33	Implemented
B.3.9 Senior Financial Officer Bank Accounts	40	3.38	Implemented
B.3.10 Accounts Receivable Collections	[illegible]	3.78	Action Being Taken
B.3.11 Restructure Grants	42	3.67	Under Consideration
B.3.12 Leave Management System	42	3.16	Action Being Taken
B.3.13 Telephone Leases	42	3.93	See Comments
B.3.14 Income Assistance Payments	43	3.33	Action Being Taken
B.3.15 Civil Legal Aid Program	43	3.73	Resolved
C. ECONOMY AND EFFICIENCY IN THE ADMINISTRATION OF PUBLIC FUNDS AND PUBLIC ACCOUNTABILITY			
Purchasing Commission	54-74	2.101-2.211	Action Being Taken
Ministry of Attorney General	76-111	2.212-2.402	Action Being Taken
D. COMMENTS ON ANNUAL REPORTS OF MINISTRIES			
D.1 Ministry of Finance and Corporate Relations	117	2.412	Action Being Taken
D.2 Ministry of Energy, Mines and Petroleum Resources	117	2.413	See Comments
D.3 Ministry of Education	118	2.414	See Comments
D.4 Ministry of Health	118	2.415	Action Being Taken
D.5 Ministry of Transportation and Highways	118	2.415	Action Being Taken
E. AUDITS OF PUBLIC BODIES			
E.1 Public Body Accountability Information	123	3.11-3.17	Implemented